PART 1904 - BORROWER CASE CLASSIFICATION

Subpart D - Classification of Multi-Housing Projects

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§1904.151 <u>General</u>.

Office of Management and Budget Circular A-129 requires at least an annual assessment of agency loan portfolio loss risks. Multi-Housing project loss risks will be estimated based on automated software using project classification codes and project security values established in accordance with this Instruction. The primary purpose of the data derived is for use in reporting the "Allowance for Uncollectible Accounts." This allowance figure is a required entry in the Agency's accounting information which is forwarded for use by central management agencies such as the Office of Management and Budget (OMB) and the Department of Treasury (DOT).

§§1904.152 - 1904.154 [Reserved]

§1904.155 <u>Overview</u>.

(a) <u>Introduction</u>. Multi-housing project classifications will be done on a project basis. Most multi-housing projects will NOT require District Office staff evaluation of project classifications. Active multi-housing projects whose accounts are 180 days or less past due and whose recoverable cost charges outstanding do not exceed 10 percent of the outstanding project balance will NOT require District Office staff to review project classification assessments. These projects will automatically be classified in accordance with the classification definitions set out in this Instruction. Loss risks for these projects will be determined using historical loss data for the multi-housing loan portfolio.

(b) <u>Project classification report</u>. The Finance Office will issue Report Code (RC) 836-C, "Classifications of Multiple Family Housing Projects," on June 30 of each year for use by District Office staff in reviewing and/or establishing a project classification on those active projects listed in the report. The projects listed on this report will include those that are identified as being 181 days or more past due, or those projects whose recoverable cost charges outstanding exceed 10 percent of the outstanding project balance. The report will also include projects with court action pending (CAP), foreclosure action pending (FAP), and subject to approved adjustment (SAA) project status codes.

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(c) <u>District Office review</u>. District Office staff will review those project names listed on RC 836-C and use the Automated Multi-Housing Accounting System (AMAS) screens to record loan classification data and inquire on loan classification data when reviewing/establishing/updating any needed loan classification or project security value for the project (Note: The loan classification input screen is accessed through use of AMAS Loan Servicing Subsystem Menu selection 25 "Record Loan Classification Data - M5D," and the inquiry screen for loan classification is accessed through use of AMAS Inquiries Subsystem Menu selection 19 "M5DI-Loan Classification Data.") The District Office staff will review/establish/update any needed loan classification or project security value for the project within 30 days after receipt of RC 836-C or by August 30 of each year, whichever is earlier (i.e., assuming receipt of the report by July 15, District Office staff will generally need to evaluate and complete entry of any needed changes by August 15th of each year.)

(d) <u>Summary</u>. In general, the software is designed to compare the estimated project security value for those projects requiring such entries on AMAS screens (this value is evaluated annually) against the outstanding loan balance owed as of any particular date. Potential losses on active multi-housing projects will be reflected whenever the project security value is calculated to be less than the amount outstanding.

§§1904.156 – 1904.159   [Reserved]

§1904.160   <u>Definitions</u>.

(a) <u>Active project</u>. All projects excepting those having a paid code (See AMAS Screen MIFI "Inquire on Loan.")

(b) <u>Classifications</u>. All multi-housing classifications will be done on a project basis. Whenever the term "loan classification" is used in this Instruction, it has the same meaning as the term "project classification." The following classification definitions are used for active multi-housing projects (note the commercial classification code 1 used in some other FmHA loan programs, is not used for multi-housing projects):

(1) <u>Standard (code 2)</u>. Projects are coded standard if all the following conditions are met:

(i) The project payment status is ahead of schedule or 0 to 90 days past due.

      (ii) Recoverable cost charges outstanding are less than or equal to 10 percent of the outstanding project balance.

      (iii) The project does not have a project status code for CAP, FAP, or SAA.

(2) <u>Substandard (code 3)</u>. Projects are coded substandard if any of the following conditions are met:

      (i) The project account status is 91 to 180 days past due and recoverable cost charges outstanding do not exceed 10 percent of the outstanding project balance.

      (ii) The project payment status is 181 or more days past due or recoverable cost charges outstanding exceed 10 percent of the outstanding project balance PROVIDED the project security value is equal to or greater than the outstanding project balance.

      (iii) The project has an AMAS project status code for CAP, FAP, or SAA and the project security value is equal to or greater than the outstanding project balance. (See AMAS Screen M4YI "Inquire on Project Miscellaneous Data," to check the project status code and the status code date. If a status code needs updating, use the AMAS "Record Borrower/Project Data Screen.")

(3) <u>Doubtful (code 4)</u>. Projects are coded doubtful if all the following conditions exist:

      (i) The project payment status is 181 or more days past due or recoverable cost charges outstanding exceed 10 percent of the outstanding project balance.

      (ii) The project is not in the loss classification category.

      (iii) The project security value is less than the outstanding project balance.

(4) <u>Loss (code 5)</u>. Projects are coded loss if all the following conditions exist:

      (i) The project has a project status code for CAP, FAP, SAA, or a project status code for a transfer pending when the project payment status for the pending transfer is 181 or more days past due.

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(ii) The project security value is less than the outstanding project balance.

(c) <u>Project security value</u>. The project security value is the estimated dollar value that the project would be appraised for minus the dollar value of any outstanding prior liens. A current appraisal may be used or an estimated appraised value may be used in processing project classifications.

(d) <u>Project status code</u>. The project status code can be established and/or updated by entering the appropriate code on the AMAS "Record Borrower/Project Data" screen. The project status code and project status code date are displayed on AMAS Screen M4YI "Inquire on Project Miscellaneous Data." The project status codes are as follows:

Code	Description
0	No Descriptive Code
1	Court Action Pending (CAP)
2	Foreclosure Action Pending (FAP)
3	Project Paid in Full by Cash (System Generated)
4	Subject to Approved Adjustment (SAA)
5	Investigation
6	Transfer Pending
7	Rental Assistance (RA) Payments Not Allowed
8	Project Closed (System Generated)
9	Project Converting to Predetermined Amortization Schedule System (PASS) (System Generated)

§§1904.161 – 1904.169 [Reserved]

§1904.170 <u>District Office staff processing</u>.

The District Office staff will receive RC 836-C on an annual basis. (The Finance Office will prepare and distribute RC 836-C to each District Office on June 30 of each year.) Upon receipt of the RC 836-C, the District Office staff must review and take appropriate classification action on each project listed on the report within 30 days of receipt or by August 30 of each year, whichever is earlier. For each project listed on the RC 836-C the staff must:

(a) <u>Review RC 836-C</u>. Review the information printed on RC 836-C to determine if any information needs updating or further review. The "DATE LAST CLASSIFIED" data appearing on the report need NOT be changed on the AMAS "Record Loan Classification Data Input" screen after each annual review if the information on the report is accurate and needs no change. The "Date Last Classified" will reflect the date the last classification

change took place. The project security value must be entered for projects listed on RC 836-C which do not show data in this field on RC 836-C. The project security value figure appearing for projects listed on RC 836-C must be reviewed and updated when needed. The project security value may be estimated, as appraisals are not expected to be completed or updated solely for the purposes of completing project classifications under this Instruction.

    (1) <u>Effects of software updating on RC 836-C</u>. RC 836-C is updated each year just prior to issuing the report. As a result of this update, information entered on the AMAS "Record Loan Classification Data Input" screen by District Office staff when classifying last year's activity may change. Such changes may occur for reasons such as the project:

        (i) Outstanding balance being different than it was at the time the last update was performed.

        (ii) Payment status being different than it was at the time the last update was performed.

        (iii) Project status code being different than it was at the time the last update was performed.

    (2) <u>Loan classification code changes since last update</u>. This year's RC 836-C may reflect different classification code changes than those printed on last year's report or entered by the District Office on the AMAS "Record Loan Classification Data Input" screen at the time any previous year's review was conducted. This should be expected and is the result of the routine updates (see overview at §1904.155 of this Instruction). Thus, an account which was 181 days or more delinquent with a project status code last year, but has no project status code this year, or is less than 181 days delinquent this year, may now have a different classification code. Depending on this year's status code, the account may not appear on this year's RC 836-C report, or could appear on the report but have a different status code.

    (3) <u>Estimated loss amount changes since last update</u>. The latest issued RC 836-C may reflect an estimated loss amount which differs from that printed on the previous year's report or differs from that expected when the District Office staff entered information on the AMAS "Record Loan Classification Data Input" screen. This should be expected, and is the result of the routine updates (see overview at §1904.155 of this Instruction). The District Office staff should seldom be concerned that the estimated loss amount changes. This data item will nearly always change since it is determined from the

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difference between the project outstanding balance and the project security value. Assuming the account has been matured since last year's report, this data item can be expected to change. The District Office staff is not expected to verify that the automated software calculated the estimated loss amount accurately as of a particular date. It is normally sufficient to determine the apparent reasonableness of the data without verification, based on a cursory review.

(4) <u>Project security value changes since last update</u>. This data item should not change unless the field office entered a new figure for this data item on the AMAS "Record Loan Classification Data Input" screen. The automated software is designed to accept field office entries for this data item. Annual automated updates should therefore have no effect on past field office entries on this data item.

(b) <u>Update AMAS Record Loan Classification Data Input Screen</u>. Record appropriate data on the AMAS "Record Loan Classification Data Input" screen when information shown on RC 836-C needs updating or when no information is shown in one or more data fields on RC 836-C. The "DATE LAST CLASSIFIED" data appearing on RC 836-C cannot be updated by field offices after each annual review (i.e., DO NOT attempt to enter a new date in item 5 "EFF DTE" on the "Record Loan Classification Data Input" screen. This date will change only if the automated system determines a loan classification change took place.)

§§1904.171 – 1904.179 [Reserved]

§1904.180 <u>Project classification inquiries</u>.

Agency employees may access AMAS screen M5DI if needed. The M5DI screen may be used for general inquiry or to review information for accuracy.

§§1904.181 – 1904.189 [Reserved]

§1904.190 <u>Multi-housing project classification reports</u>.

(a) <u>District Office classification reports</u>. District Office staffs will primarily use RC 836-C, "Classifications of Multiple Family Housing Borrower Accounts," in conjunction with multi-housing classification reviews and updates.

    (b) <u>State Office classification reports</u>. State Office staff will primarily use the RC 636-L, "Quarterly Summary Report of Classifications for Multiple Family Housing Projects--STATE," to evaluate District and State Office summary data in conjunction with multi-housing project classifications.

    (c) <u>National Office classification reports</u>. National Office program staff will primarily use RC 636-L, "Quarterly Summary Report of Classifications for Multiple Family Housing Projects--NATION," to evaluate State and Nationwide summary data in conjunction with multihousing project classifications.

§§1904.191 - 1904.200 [Reserved]

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